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## Current Support Brief

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### POSSIBLE INCREASE IN BLOC REEXPORTS OF EGYPTIAN COTTON



CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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POSSIBLE INCREASE IN BLOC REEXPORTS  
OF EGYPTIAN COTTON

The United Arab Republic (UAR -- Egypt) has embarked on a new cotton policy that may allow for an increase in the volume of Egyptian cotton reexports by Bloc countries. During the current season, export prices of Egyptian cotton will be determined competitively, and the prices will be identical for all purchasing countries. The effect of this policy will be to reduce cotton prices to the Bloc 1/ and Yugoslavia, apparently making it easier for these countries to withstand the financial burden of undercutting world cotton prices in order to pursue a reexporting program.

Although reexports of Egyptian cotton to non-Bloc countries by the Soviet Bloc and Yugoslavia during the 1961/62 marketing season were not large, reexports in the several years previous to 1961/62 were quite substantial. It is estimated that in the years immediately before 1961/62 reexports by these countries accounted for about 8 percent of their cotton purchases from the UAR -- a figure equivalent to about 16 percent of the total Egyptian cotton exports to the non-Communist countries in 1958/59; 10 percent in 1959/60; and 14 percent in 1960/61. The sales were customarily at prices ranging from 2 to 20 percent below world prices. Such competition can have serious effects on Egyptian cotton prices, and can hinder attempts by the UAR to sell cotton to hard currency purchasers.

During the 1961/62 season the volume of Bloc-Yugoslavian reexports was restricted as a result of the following policies undertaken by the UAR government. First, triangular switch transactions were prevented by closing the Alexandria cotton market in June 1961 and placing all exports of Egyptian cotton under government control. Second, all exported cotton bales were permanently stenciled with the legend "Product of Egypt destined for ultimate consumption in [for example, Czechoslovakia]." 2/ Third, the UAR continued its policy of giving discounts to purchasers of

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cotton from hard currency countries, a procedure that had the effect of charging somewhat higher prices to the Communist countries and thereby increasing the financial burden of reexporting.

A fourth, and very effective, policy was initiated during the 1961/62 marketing season whereby the Egyptian Cotton Commission (ECC) established quotas on cotton sales to all Communist countries. 3/ The accompanying table shows that the ECC heavily restricted cotton exports to the Communist countries until the latter half of the season, at the same time relatively increasing the volume of exports to the rest of the world during the first 6 months of the marketing year. In this manner the UAR was able to forestall reexporting by keeping the volume of cotton shipped to the Communist countries in closer accord with their domestic needs and simultaneously selling heavily to the hard currency countries. As the table indicates, this policy was very strictly enforced for those Communist countries that had been the principal offenders -- Czechoslovakia, Yugoslavia, Rumania, and Poland. Reexports during the latter half of the season also were curtailed as a result of the quota system. Although the heaviest export curtailments occurred within the first 6 months, sales to the Bloc and Yugoslavia for the whole season were down by 39 percent compared with the previous season. This decline compares with a drop in the 1961/62 Egyptian cotton crop of about 30 percent and a relative decrease in exports to non-Communist countries of only 19 percent.

As a consequence of the above policies, the volume of reexporting was reduced in 1961/62. Prospects for the current season, however, are not so bright. The new 3-year Soviet-UAR trade agreement calls for large annual shipments of cotton to the USSR, probably insuring a continuation of the present allocation of 55 to 60 percent of Egypt's total cotton exports to the Soviet Bloc and Yugoslavia. The combined effect of the new quotas and the lower prices will make it easier and less costly for these Communist countries to reexport Egyptian cotton should they need to bolster their hard currency positions. The only areas of restraint lie in stenciling the export shipments and in restricting the volume of exports to the Bloc-Yugoslavia until the latter part of the season. The impact of the first tactic is nebulous, and the ability of the UAR to withstand the continued and intensive pressure of

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the Bloc for larger immediate shipments is doubtful. In the event that neither measure is effective, the UAR will be in a particularly vulnerable position. Consequently, reexports of Egyptian cotton by the Soviet Bloc and Yugoslavia may rise again in the coming marketing season.

Table

Changes in the Distribution of Egypt's Cotton Exports:  
1961/62 Marketing Season Compared with 1960/61

<u>Purchaser</u>	<u>Percent of Change from Previous Similar Period</u>	
	<u>First Half 1961/62 Marketing Season</u>	<u>Full 1961/62 Marketing Season</u>
Communist countries		
Principal reexporters		
Czechoslovakia	-65	-60
Yugoslavia	-97	-47
Rumania	-73	-8
Poland	-58	-54
Other reexporters		
USSR	53	-51
East Germany	-30	-23
Bulgaria	-61	-30
Hungary	-59	-46
Average of all Communist purchasers	-49	-46
Average of principal re- exporters	-73	-42
Non-Communist countries	23	-19

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A large part of Egypt's exports of cotton to the Bloc, particularly to the USSR and Czechoslovakia, constitutes payments for military and economic assistance. As long as Egypt continues to seek and receive such aid from the Bloc, it is unlikely that the government will be able -- even if desirous -- to develop a cotton policy in the foreseeable future that would effectively eliminate reexports by these countries.

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*Estimate for table page 3 are unclassified  
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